



January 21, 2021

To the Honorable Mayor, Members of the City Council and Citizens of the City of Riverside:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2020.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a rational basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Lance, Soll & Lunghard, LLP a firm of certified public accountants. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unmodified opinion on the City's financial statements for the fiscal year ended June 30, 2020. The independent auditor's report is presented as the first component of the financial section of this CAFR.

The independent audit of the financial statements of the City was part of the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on internal controls and compliance with legal requirements, with emphasis on those involving the administration of federal awards/grants. These reports will become available in the City's separately issued Single Audit Report.

Management has provided an overall analysis of the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with this section. The City's MD&A can be found immediately following the independent auditor's report.

Profile of the City of Riverside

The City of Riverside, incorporated on October 11, 1883, is located in the western portion of Riverside County, about 60 miles east of Los Angeles. The City currently occupies a land area of 81.507 square miles.

The City operates under the council-manager form of government, with a seven-member council elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the Council but does not have a vote except in the case of a tie. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The Council is elected on a non-partisan basis.

The City provides a full range of services which include general government, public safety (police, fire, disaster preparedness and building inspection), construction and maintenance of highways and streets, economic development, culture and recreation, electric, water, airport, refuse, sewer, and senior citizen/handicap transportation. In addition to general City activities, the Council is financially accountable for the Riverside Housing Authority, Riverside Public Financing Authority, Riverside Municipal Improvements Corporation and the Successor Agency, which was formed to hold the assets of the former Redevelopment Agency; therefore, these entities are included as an integral part of the City's financial statements. Additional information on these legally separate entities can be found in note 1 in the Notes to Basic Financial Statements.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because debt indenture provisions specify payments. The permanent fund is not budgeted.

Biannually, during the period December through February, department heads prepare estimates of required appropriations for the following two-year budget cycle. These estimates are compiled into a proposed operating budget that includes a summary of proposed expenditures and financial resources and historical data for the preceding budget cycle. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations within a fund. All appropriations shall lapse at the end of the fiscal year to the extent they have not been expended or lawfully encumbered, except for appropriations for capital projects which shall continue to their completion. For the general fund, this comparison is presented on page 27 as part of the basic financial statements for the governmental funds. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which begins on page 85.

Local economy: The City is located in Inland Southern California, which consists of Riverside and San Bernardino Counties (the "MSA"). The population of Inland Southern California, at approximately 4.5 million, is larger than 24 states. The City leads the Inland Southern California in most measures of economic power, including population, income, employment, bank deposits, assessed valuation, office space and college enrollment. The population of the City is 328,155 which places it as the 12th largest in California.

On March 4, 2020, Governor Newsom declared a state of emergency in California as a result of COVID-19 and on March 13, 2020, the City of Riverside declared a local emergency and closed non-essential facilities to the public. Stay-at-home orders followed from the State and City in mid-March. The last quarter of the fiscal year was dramatically impacted by the COVID-19 shutdown and shelter-in-place directive. General consumer retailers and restaurants were the most immediately hindered, while gas station returns decreased due to the lack of consumption. Unemployment hit record levels not seen since the 2008 great recession. The County of Riverside unemployment rate for the month ending June 2020 was 14.8%. The state provided relief through the CARES Act, which provided funding to state and local governments. The Act also gave an additional \$600 per week federal subsidy through July 31, 2020 for individuals collecting state unemployment benefits.

The food and retail industry have been hit particularly hard due to the pandemic and resulting government shutdowns. The food industry has seen a reduction of 45,300 jobs from March to April 2020, and a loss of 52,500 jobs from April 2019 to April 2020. The retail industry had a loss of 26,400 jobs from March to April 2020, and a reduction of 28,900 jobs from April 2019.

The logistics industry, including wholesale trade, trucking and warehousing, has been the inland empire's primary economic driver in recent years due to e-commerce and international trade. In April 2020, the logistics sector was up 4,200 jobs from April 2019, which included losing 7,100 jobs from March to April 2020 due to the COVID-19 pandemic. Healthcare, construction and manufacturing industries have been slowed due to the pandemic. Healthcare saw a 7,300 reduction in jobs by April 2020, compared to the same time prior year. Construction lost 14,900 jobs in April 2020 compared to prior year, with 13,700 of those jobs lost from March to April 2020. Manufacturing was slowed by 5,100 jobs from March to April 2020, and down 8,600 jobs from April 2019.

So far, home sales and prices have remained strong during the pandemic. In the inland area, new home prices flattened but existing home prices increased. Riverside County saw new homes sell for a median of \$434,000 in April 2020, down 0.2% from the same time last year. Existing homes in Riverside County sold for a median of \$405,000, up 5.2% from April 2019. Riverside County had existing home sales increase by 11.7% and new home sales volume increase 21.5% in April 2020 compared to prior year.

Goals and Vision: On October 20, 2020, Council approved the Riverside 2025 Strategic Plan, which is comprised of two components:

- 1) City Council Strategic Policy, which sets forth the priorities and policy direction of the City Council to advance Riverside's potential and to frame the work efforts over the next five years including Vision, Cross-Cutting Threads, Strategic Priorities, Indicators and Goals; and
- 2) Operational Workplan, which sets forth envisioned actions to be carried out by City staff to implement the City Council Strategic Policy, as well as related metrics to track the trendlines of progress toward achieving City Council priorities and includes the Actions and Performance Measures which will be evaluated and updated by the City Manager on an as-needed basis in conjunction with the City's budget cycle.

Riverside 2025 Strategic Plan Vision: Riverside is a city where every person is respected and cherished, where equity is essential to community well-being, where residents support one another, and where opportunities exist for all to prosper. In Riverside, everyone comes together to help the community, economy and environment reach their fullest potential for the public good.

Strategic Priorities and Indicators:		
Arts, Culture and Recreation Indicators: <ul style="list-style-type: none"> • Lifelong Learning • Shared Uses and Partnerships • Arts and Cultural Opportunities • Access to Parks, Trails and Open Spaces • Programs and Amenities 	Community Well-Being Indicators: <ul style="list-style-type: none"> • Housing Supply and Attainability • Public Safety • Public Health • Placemaking • Homelessness • Household Resilience 	Economic Opportunity Indicators: <ul style="list-style-type: none"> • Workforce Development • Business Development and Success • Local Investment • Regional Partnerships • Economic Mobility
Environmental Stewardship Indicators: <ul style="list-style-type: none"> • Water Quality, Supply, Efficiency and Reliability • Climate Resiliency, Carbon Footprint and Air Quality • Usage, Condition and Quality of Public Lands • Local Food System Vitality • Environmental Justice • Renewable Resource Usage and Waste 	High Performing Government Indicators: <ul style="list-style-type: none"> • Community Centered Services • Adaptive Organization • Financial Health • Equity in Delivery of City Services • Civic Engagement • City Team Engagement 	Infrastructure, Mobility, and Connectivity Indicators: <ul style="list-style-type: none"> • Access to Transportation Choices • Infrastructure Quality and Reliability • Outside Investment • Smart City Ecosystem • Greening Facilities, Fleet and Systems

As the City implements Priority Based Budgeting strategies, which will guide the budget development process for future fiscal years, the City Council’s Strategic Priorities will play a critical role in helping the City make decisions on how to allocate resources.

Long-term financial planning: The City intends to adopt a one-year budget for FY 2021-22 before returning to a two-year budget cycle for FY 2022-24. Adopting a one-year budget will allow the City to focus on immediate fiscal challenges and balancing measures while working to transition to a priority-based budgeting (PBB) process for FY 2022-2024. The PBB budgeting methodology is expected to result in targeted and high-impact actions that will better align the City’s limited resources with the City’s strategic goals.

The Capital Improvement Program (CIP) provides funding for the City’s critical and essential infrastructure projects in the amount of \$110 million for Fiscal Year (FY) 2020-21. Over the course of five years (FY 2020/21 through FY 2024-25), the City anticipates investing a total of \$559 million in our essential assets. The CIP was developed prior to the onset of the COVID-19 pandemic and remains unadjusted for potential COVID-19 impacts on funding sources and labor and material resources required to carry out the planned capital projects. However, the City will remain flexible in response to a potential downgrade of revenues and will recommend necessary budget adjustments throughout the year as these challenges materialize. Due to COVID-19, the CIP budget was developed with a thoughtful and conservative approach in order to further address the needs of the City and community. Given the limitations of the

General Fund contributing to capital projects as it continues to face challenges with unknowns from COVID-19 and increasing Public Employee Retirement (PERS) costs, the City will continue to aggressively pursue grants and work with local, state and federal agencies as well as private partners to fund critical capital projects in our community.

The CIP responds to the needs of our residents to ensure the streets, public buildings, sewer, water, and electric infrastructure, and parks are well maintained and operated for optimum health and safety, added value, increased efficiency and functionality, enhanced attractiveness and beautification, and compliance to legal mandates. The CIP document places equal emphasis on planning for new projects as well as improving and preserving existing capital assets.

The City's CIP document includes a list of Unfunded CIP Projects. This is an attempt to identify and quantify the City's true CIP needs - not only in the short term, but also in the long term. Although the list is comprehensive and reflects a good assessment of the City's needs, it is by no means a complete list as more work needs to be done in the coming years to refine this list, create guidelines to prioritize projects, and prepare a strategic approach to fund and complete these unfunded projects. Additionally, the City has embarked on formulating a 10-year financial forecast model as part of providing a longer-term outlook on City finances.

Measure Z: Measure Z is a one-cent transaction and use tax, with revenues going directly to the City of Riverside. The collection of an additional one-cent sales tax authorized by voters through Measure Z began on April 1, 2017. The FY 2018-2023 Measure Z Spending Plan was approved by the City Council on June 12, 2018, with the adoption of the FY 2018-2020 Two Year Budget. During FY 2019-2020, three new spending items were approved by City Council since budget adoption and added to the Measure Z Spending Plan: Homeless Temporary Housing, Orangecrest Fire Station Dormitory Improvements, and Library Security Guards.

The Measure Z Reserve Policy was adopted by City Council on April 2, 2019 and requires a minimum of \$5 million contingency reserve level to provide for a measured and thoughtful reduction in expenditures during times of economic downturn, rather than making immediate and drastic budget cuts without the time for proper evaluation. The policy also states that if the \$5 million minimum reserve requirement is projected to be met in each fiscal year for the duration of the Measure Z tax (FY 2035-36), City staff shall present a plan to the City Council to allocate surplus reserves to new spending initiatives. Since only five years of the spending plan are approved at a time and are subject to change with the adoption of each budget, the only spending items that could cause the reserves to fall below the required \$5 million are debt obligations. At this time, the debt obligations funded by Measure Z are minimal, with FY 2019-20 debt payments accounting for 13.3% of the FY 2019-20 revenue received.

Financial policies: Fiscal policies establish framework for managing the City's financial resources and safeguarding the City's assets in compliance with relevant regulatory mandates, industry standards, and best practices. Maintaining healthy reserves in the General Fund, and other Funds as well, is a critical component of the City's sound financial management practices.

In February 2018, the City adopted a Long-Term Financial Planning Policy to assist City leaders (elected officials and City management) in making prudent and informed financial decisions regarding economic development, tax policy and labor negotiations. Credit rating agencies encourage long-term financial planning, and generally favor government entities with such plans when assigning bond ratings.

The policy requires the City to adopt long-term financial plans spanning at least five years for all major City funds (e.g., General, Electric, Water, Sewer, etc.) in conjunction with the biennial (two-year) budget. The long-term financial plan should incorporate the following elements as relevant and appropriate:

- An analysis of economic and demographic data at the national, state and local level;
- Past revenue and expenditure trends;
- Forecast assumptions;
- Forecasts of major revenues and expenditures based on known data, documented assumptions, and input from subject matter experts, and various internal and external stakeholders; and
- Compliance with existing City fiscal policies.

The City's key budgetary themes include financial accuracy, financial responsibility/discipline, maintaining essential services/infrastructure, and ensuring a transparent/participatory budget process. This CIP document builds on the City's recent financial successes, by incorporating best practices offered by the Government Finance Officers Association (GFOA) and the California Society of Municipal Financial Officers (CSMFO). Based on recommendations developed by the City Manager's Office and Finance Department, the City Council adopted two new policies to establish the framework for future capital budgets. The first policy, Multi-Year Capital Planning, establishes guidelines that help the City identify and prioritize expected capital needs based on strategic priorities and operational needs, establish project scope and cost, detail estimated amounts of funding from various sources, and project future operating and maintenance costs. The second policy, Prioritization of CIP, establishes an objective process of prioritizing capital improvement projects to ensure consistency with the General Plan, in conjunction with the biennial budget process, or otherwise as capital funding becomes available.

The City's General Fund Reserve Policy, adopted by the City Council on September 6, 2016, requires maintaining the General Fund reserve at 15%. The City Council set an aspiration goal of the General Fund Reserve at 20%; this goal was recently reaffirmed through adoption of the "Responsible Spending Vision Pledge" on October 4, 2016. As of June 30, 2020, the General Fund reserve is currently at its aspirational goal of 20% or \$54.3 million.

In an effort to address the growing pension challenges facing states and local governments nationwide, the City adopted a Pension Funding Policy to achieve these objectives:

The City will create a Pension Stabilization Fund that will deploy resources in the following manner:

- Establish a Section 115 Pension Trust to realize greater investment returns than what is currently available through the City's cash pool investments. An outside investment advisor was hired to administer the trust.
- Pre-pay the City's annual Unfunded Accrued Liability (UAL) payment to save on interest costs. On July 1 of each year, the City receives its annual CalPERS UAL invoice.
- Unanticipated one-time revenues or settlements shall be prioritized at a rate of 50% of the revenue alongside other critical needs to make a one-time payment to CalPERS to pay-off a portion of the City's UAL to save on interest payments, reduce annual payments, and lower annual operating expenses. Payments would be incorporated into the City's annual budget for City Council consideration and will only be utilized if the general fund is not projected to end the year at a deficit.

In addition to establishing a Pension Stabilization Fund, this policy provides the following guidance:

- As part of the annual budget process, City staff shall set aside a portion of any projected year-end increase in fund balance to manage increases in pension contributions. Actual one-time transfers made to the Pension Stabilization Fund will vary on a year-to-year basis depending upon the actual fiscal year end audited reserve balance.
- City staff shall work with its financial and other advisors to refinance its debt obligation bonds when it can achieve savings consistent with the City's Debt Management Policy and redirect any savings to the Pension Stabilization Fund.
- Upon maturity of General Fund Debt Obligation, staff will present a plan to reallocate all or a portion of debt service payments that have matured to the Pension Stabilization program as long as there is no general fund deficit at the time of debt maturity.

One of the biggest challenges to the City's long-term financial sustainability is the long-term unfunded pension obligations for City employees under CalPERS. Over the next five years (FY 2020-21 to FY 2022-23), the City anticipates its annual retirement expenditures to increase by 18.1% from approximately \$87.1 million to \$102.9 million. The Unfunded Accrued Liability (UAL) projections are based on an actuarial report prepared for the City by Bartel Associates., LLC dated January 28, 2019. The normal cost projections are based on FY 2020-2025 preliminary budget estimates. The City has consistently taken steps to mitigate the impacts of increases in pension costs including adopting a two-tier retirement system, pre-paying the annual unfunded accrued liability payment, and increasing employee contributions towards their pensions. Additionally, on June 4, 2020, the City issued \$432 million in Pension Obligations Bonds (POB) to help mitigate rising pension costs. The POBs issued paid off approximately 67% of the City's CalPERS UAL with a potential projected savings to the City of approximately \$179 million over the life of the debt; assuming certain investment targets are achieved by CalPERS. In FY2020-21 and FY2021-22, the City will experience a \$7.25 million savings in pension costs to the General Fund and approximately \$4 million across all other funds in the City.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (Program) to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2019. This was the fourteenth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized CAFR that satisfied both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements. This award is valid for a period of one year only. We believe that our current CAFR continues to meet the Program's requirements and we are submitting it to the GFOA again this year.

The Government Finance Officers Association (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2019. The City received the award for the third time for the June 30, 2019 report and has continued to prepare an award-winning report. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. The Award is for a period of one year only. The City will continue to participate in the program.

Budget Presentation Award: The City received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2019. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communication device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department and oversight from the City Manager's Office. We would like to express our appreciation to all members of the department who assisted and contributed to its preparation. Credit also must be given to the Budget Engagement Commission and Mayor and the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'E. Enriquez', with a long horizontal flourish extending to the right.

Edward Enriquez
Chief Financial Officer/City Treasurer